

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 NSC-05 CIAE-00 PM-05 INR-10 L-03
ACDA-12 NSAE-00 PA-02 SS-15 SP-02 USIA-15 TRSE-00
OMB-01 EB-08 /091 W
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R 301643Z MAR 78
FM USMISSION USNATO
TO SECSTATE WASHDC 0389
SECDEF WASHDC
INFO AFAFC DENVER CO

UNCLAS SECTION 01 OF 02 USNATO 03271

E.O. 11652: N/A

TAGS: MARR NATO

SUBJECT: NATO AUDIT OF SATCOM II AND III PAYMENTS TO THE
US

SUMMARY. THE NATO BOARD OF AUDITORS HAS REQUESTED OUR
ASSISTANCE IN ARRANGING AN AUDIT OF SATCOM PAYMENTS TO
THE US. SINCE WE ARE NOT CERTAIN OF THE APPROPRIATE US
AGENCY TO ADDRESS THE REQUEST, WE ARE FORWARDING IT TO
OSD FOR DISTRIBUTION. ACTION REQUESTED: REPLY TO NATO
BOARD OF AUDITORS' LETTER, QUOTED HEREIN. END SUMMARY.

1. THE CHAIRMAN (HECK, FRG) OF THE NATO BOARD OF
AUDITORS (BOA) HAS REQUESTED US TO SEND THE FOLLOWING
LETTER TO MR. C. JEFFCOAT AT THE SECURITY ASSISTANCE
ACCOUNTING CENTER, DENVER:

BEGIN TEXT.

BAI(A.69-78)390-44, 29 MARCH 1978.

MR. C. JEFFCOAT, C.P.A.
DIRECTOR
SECURITY ASSISTANCE ACCOUNTING CENTER
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AFAFC
DENVER, COLORADO 08279

DEAR SIRS:

THE INTERNATIONAL BOARD OF AUDITORS FOR NATO IS
RESPONSIBLE TO THE NORTH ATLANTIC COUNCIL, AMONG OTHER

THINGS FOR AUDITING PAYMENTS BY THE NATO INTEGRATED COMMUNICATIONS SYSTEM MANAGEMENT AGENCY (NICSMA) FOR SERVICES RENDERED BY THE UNITED STATES UNDER THE NATO SATELLITE COMMUNICATIONS PROGRAM. IN CONNECTION HERewith (DURING A TRIP TO THE UNITED STATES ON NATO BUSINESS WHICH I PLAN TO MAKE IN MAY 1978 WITH ONE OF THE BOARD'S AUDITORS, MR. J. DE LEEUW), THE BOARD WOULD LIKE TO REVIEW ACCOUNTS AND RECORDS RELATED TO THE ABOVE PROGRAM WHICH WE UNDERSTAND ARE KEPT AT YOUR CENTER.

THE PROGRAM INVOLVES PROCUREMENT OF SATELLITES AND RELATED LAUNCHING AND OTHER SERVICES BY THE UNITED STATES FOR NATO PROJECTS KNOWN AS SATCOM PHASE II AND SATCOM PHASE III UNDER AGREEMENTS WHEREBY NICSMA UNDERTOOK TO PAY THE DEPARTMENT OF DEFENSE (DOD) SUCH AMOUNTS AT SUCH TIMES AS MAY BE SPECIFIED BY THE DOD IN ORDER TO MEET PAYMENTS REQUIRED BY CONTRACTS UNDER WHICH ARTICLES OR SERVICES ARE PROCURED. SUCH PAYMENTS BY NICSMA AMOUNTED TO ABOUT \$84 MILLION AS OF A RECENT DATE. THE UNITED STATES AGREED THAT THE FINAL PRICE TO NICSMA WOULD BE THE TOTAL COST TO THE DOD OF PROCURING OR FURNISHING THE ARTICLES AND SERVICES. THE UNITED STATES ALSO AGREED (FOR EXAMPLE IN ARTICLE IV, PARAGRAPH 4, OF THE SATCOM III AGREEMENT SIGNED BY THE UNITED STATES ON 12 JULY 1972) FOR THE DOD TO MAINTAIN A COMPLETE UNCLASSIFIED

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RECORD OF THE EXPENDITURES IN ACCORDANCE WITH ESTABLISHED DOD ACCOUNTING PROCEDURES AND TO MAKE THIS RECORD AVAILABLE FOR REVIEW AS REQUESTED BY THE INTERNATIONAL BOARD OF AUDITORS FOR NATO OR AUTHORIZED REPRESENTATIVES OF NICSMA.

WE DO NOT ENVISAGE A DETAILED REVIEW BY OUR BOARD OF THE DOD EXPENDITURE RECORDS. WE BELIEVE, HOWEVER, THAT NICSMA AS THE NATO AGENCY ADMINISTERING THIS PROGRAM HAS RESPONSIBILITIES TO SATISFY ITSELF THAT THE AMOUNTS BILLED BY THE UNITED STATES REPRESENT COSTS INCURRED AS SHOWN IN THE SUPPORTING RECORDS AND THAT CONTROLS ARE EXERCISED BY THE UNITED STATES TO ASSURE THAT THE COSTS ARE PROPER AND IN ACCORDANCE WITH THE TERMS OF THE AGREEMENTS. IN THIS CONNECTION, THE EXTENT AND THE RESULTS OF AUDITS OF THE COSTS BY UNITED STATES AUDIT AUTHORITIES WOULD APPEAR TO BE PERTINENT DATA. HOWEVER, THE AVAILABLE INFORMATION AT NICSMA ON THE ABOVE MATTERS IS INCOMPLETE AND VERY LIMITED. NICSMA OFFICIALS ADVISED US THEY LEARNED FROM REPRESENTATIVES OF YOUR CENTER DURING A BRIEFING AT SHAPE IN OCTOBER 1977 THAT INFORMATION ON DOD RECORDS AND THE EXTENT OF AUDITS IS AVAILABLE AT YOUR

CENTER. CONSIDERING, THEREFORE, THAT MR. DE LEEUW AND I WILL BE IN THE UNITED STATES IN MAY 1978 ON OTHER NATO BUSINESS, THE NICSMA OFFICIALS HAVE SUGGESTED THAT WE ADD A VISIT TO YOUR CENTER TO OUR ITINERARY.

A RELATIVELY SIGNIFICANT SPECIFIC PROBLEM WHICH NICSMA HAS BROUGHT TO OUR ATTENTION IS THAT FOR LAUNCHING SERVICES OF THE SATCOM II PROJECT YOUR BILLING TO NICSMA (ON DD FORM 645) FOR \$12,848,578 APPEARS TO BE OVERSTATED BECAUSE THE APPLICABLE FINAL ACTUAL COSTS TO DOD WERE

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\$10,515,300, ACCORDING TO ADVICE RECEIVED BY NICSMA FROM OTHER SOURCES, SUCH AS A LETTER OF THE AIR FORCE SYSTEMS COMMAND DATED 21 MARCH 1977 AND AN ENCLOSED LETTER OF THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION DATED 27 JANUARY 1977. NICSMA OFFICIALS STATED THAT THEY INQUIRED ABOUT THE APPARENT DISCREPANCY WITH YOUR REPRESENTATIVES IN OCTOBER 1977 AND THAT THEY WROTE YOU ON 5 DECEMBER 1977 BUT THAT NO CLARIFICATION HAS BEEN RECEIVED. DURING OUR VISIT WITH YOU, WE WOULD HOPE TO OBTAIN AN UNDERSTANDING OF THE REASON FOR THE DIFFERENCE, BUT IN THE MEANWHILE WE WOULD APPRECIATE ANY PERTINENT EXPLANATORY INFORMATION ON THIS POINT THAT YOU MAY BE ABLE TO INCLUDE IN YOUR RESPONSE TO THIS LETTER.

IN ORDER THAT WE MAY FIRM UP OUR TRAVEL PLANS, WE WOULD APPRECIATE YOUR ADVISING US IF YOU ARE AGREEABLE (1) TO OUR VISIT TO YOUR CENTER IN THE THIRD WEEK OF MAY 1978 (THIS WOULD FIT WITH OUR OTHER PLANS, INVOLVING ABOUT ONE OR TWO DAYS OF BUSINESS IN WASHINGTON D.C. IN THAT

SAME WEEK AFTER COMPLETION OF AN AUDIT IN NORFOLK, VIRGINIA IN THE PRECEDING WEEK) AND (2) THAT WE INFORM YOU LATER, BY TELEPHONE FROM NORFOLK, OF THE SPECIFIC DAY OF EXPECTED ARRIVAL IN DENVER. ALSO, IF YOU BELIEVE UNCLASSIFIED

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THAT IMPORTANT INFORMATION OF INTEREST TO OUR OBJECTIVES IS NOT AVAILABLE AT YOUR CENTER (FOR EXAMPLE IF YOU DO NOT HAVE THE COMPLETE EXPENDITURE RECORDS OR COMPLETE DATA ON THE SCOPE AND RESULTS OF AUDITS) PLEASE ADVISE US OF THE AGENCIES AND LOCATIONS WHERE THE ADDITIONAL INFORMATION WOULD BE AVAILABLE FOR OUR REVIEW. LET US ALSO KNOW IF YOU BELIEVE THAT PRIOR TO VISITING YOUR CENTER WE SHOULD CONTACT YOUR PARENT ORGANIZATION IN WASHINGTON D.C.

LOOKING FORWARD TO A REPLY FROM YOU AT YOUR EARLIEST CONVENIENCE. SINCERELY, /S/ H.-J. HECK.

END TEXT.

2. TO AVOID ANY MISUNDERSTANDING WE ARE FORWARDING THE TEXT TO OSD FOR APPROPRIATE ROUTING.

3. REQUEST REPLY TO BOA QUESTIONS AND CONFIRMATION OF DATE AND PLACE TO THE PROPOSED AUDIT.

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